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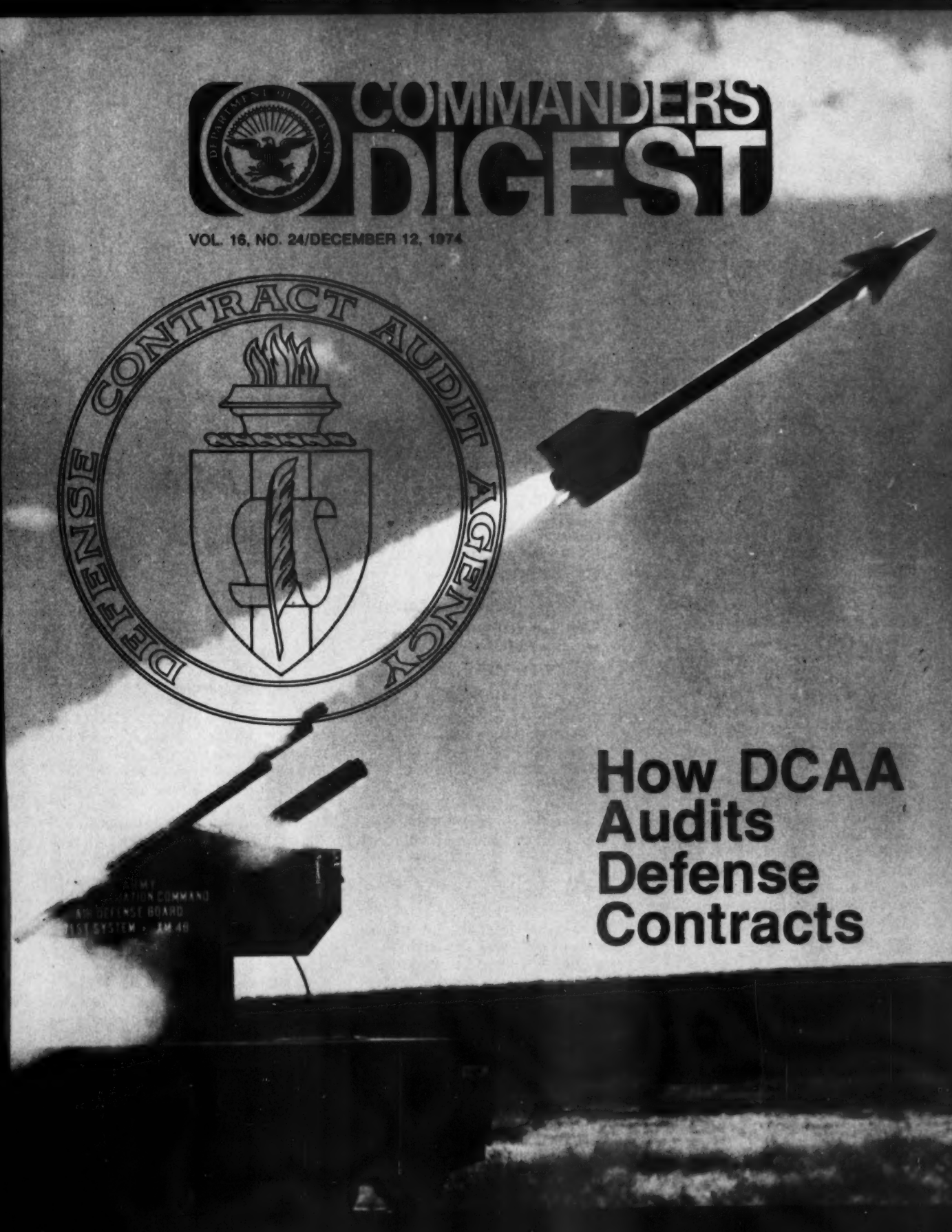


How DCAA Audits Defense Contracts

INSURING a MAXIMIZED RETURN with LIMITED RESOURCES

The increasing complexity of military weapons systems and equipment combined with the diversification and intricacy of the financial management policies and accounting systems of major Defense contractors have significantly influenced the administration and operation of the Department of Defense (DOD) procurement mission.

Now, in today's dynamic economy, in the face of significant natural shortages and high inflation it is imperative that DoD ensure that its appropriated funds are administered both efficiently and economically in the procurement of equipment and supplies, and that the return of DoD's limited resources is maximized. The Defense Contract Audit Agency (DCAA) is charged with and committed to assisting in the attainment of this goal by providing financial and accounting advice on existing and prospective procurement.

Background

Prior to DCAA, contract audits were performed by the three Military Department audit agencies. However, the Departments did large amounts of audit work for each other, and since contract audit was uniformly required the Secretary of Defense decided in 1964 that consolidation of this common service function into a single agency was both logical and workable.

Mission and Organization

The Defense Contract Audit Agency was established by Department of Defense Directive 5105.36 and began operation on July 1, 1965. Its purpose is to perform all necessary contract auditing for the Department of Defense with the objective of achieving prudent contracting by providing independent accounting and financial advisory services, in connection with the negotiation, administration, and settlement of contracts and subcontracts, to all DoD procurement and contract administration activities.

The DCAA also furnishes contract audit services to other Government agencies where arrangements are appropriate. DCAA's director is Bernard B. Lynn who is responsible directly to the Secretary of Defense; staff supervision on behalf of the Secretary is provided by the Assistant Secretary of Defense (Comptroller).

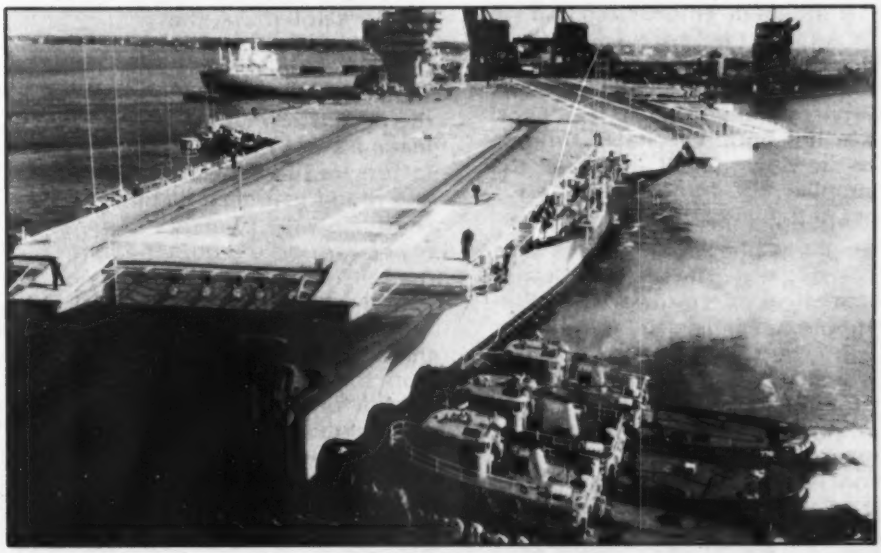
The auditor's independence is therefore assured by an organizational position which provides the authority and opportunity to make and report findings and recommendations objectively, without influence or control by individuals responsible for making decisions on the advice provided. This organizational independence is necessary to the proper functioning of an advisory or consultative service of the type provided by DCAA.

DCAA audits contractors' and subcontractors' accounts, records, documents, and other evidence, and performs evaluations of systems of internal control, accounting, costing, estimating, and general business practices and

The Defense Contract Audit Agency (DCAA) monitors the production of equipment for all of the Military Services. At left, three members of DCAA observe the production of the Air Forces' new F-15 fighter aircraft.

procedures, for the purpose of giving advice and recommendations to procurement and contract administration personnel on:

- Acceptability of costs incurred under flexibly-priced contracts;
- Acceptability of estimates of cost to be incurred as represented by contractors incident to the awards negotiation, modification, and change of contracts;
- Adequacy of financial or accounting aspects of contract provisions;
- Adequacy of contractors' accounting and financial management systems and estimating procedures.



DCAA performs postaward audits of contracts in order to assure compliance by contractors with the provisions of Public Law 87–653 ("Truth in Negotiations"), and reviews contractor compliance with the rules, regulations, and promulgated standards of the Cost Accounting Standards Board established by Public Law 91–379.

Further, DCAA assists responsible procurement or contract administration activities in their surveys of the purchasing-procurement systems of major contractors; it cooperates with other DoD components on reviews, audits, analyses or inquiries involving contractors' financial positions or financial and accounting policies, procedures, or practices. The agency also maintains liaison auditors at major procuring and contract administration offices and provides assistance in the development of procurement policies and regulations at the DoD level.

It should be emphasized that the DCAA effort described above is depended to assist DoD in purchasing Defense materials and services at the lowest price or cost which is both reasonable and fair to the Government and the supplier.

Although this effort places emphasis on reasonableness and fairness, it also includes the notion that prices paid by the Government should not reflect the cost of contractor operations or practices which are in any manner wasteful or unnecessary. Herin lies the responsibility of the contract auditor to go beyond the attest function to serve the need for prudent contracting by examining contractors' cost and other financial management records and data to detect and assist in preventing such wasteful or unnecessary expenditures.

Contract auditing by DoD has progressed through an evolutionary learning process beginning back in the green eyeshade and sleeve garter days when the auditor only verified the detailed financial transactions of a contract. In those days emphasis was not on whether the costs incurred were reasonable but on whether the claimed expenses were summarized, recorded and paid accurately.

For many years now the contract auditors have looked at the reasonableness of contractor costs and have performed economy, efficiency and effectiveness reviews called operations audits. In operations audits, the auditor looks into the financial management aspects of the performance of contractor work groups.

In one case, for example, DCAA auditors noted that the contractor's staff of material expeditors seemed large in relation to the problems associated with the product on contract. They made a study of various workload factors for this expediting function and found that most material shortages—the primary reason expeditors were required—were due to slow and inefficient action by persons processing material requisitions. When presented with this condition and the evidence from the auditor's study, the contractor implemented improvements which have resulted in savings estimated at $550,000 annually—the expeditor group was reduced by 25 persons and purchase requisition processing time was halved. Additional benefits accrued by having material on hand when needed, which permitted better production scheduling.

When appropriate, the auditor joins in such reviews with other Government personnel; for example, the auditor and a Government industrial engineer may coordinate in a review of a contractor's production scheduling and control functions, the auditor examining the financial management aspects of actual operations and controls, the engineer evaluating whether item specifications, tolerances, work methods, etc. were appropriate from an engineering or production standpoint. In each case, however, the auditor is accommodating both the attest function (the costs have been in fact incurred on this contract and in the amounts claimed) and the function of reviewing the claimed cost for its reasonableness (does not contain costs resulting from wasteful or inefficient practices).

Operations audits determine the existence and appraise the adequacy of managerial controls in major functional areas. Alternatively, where these audits demonstrate the absence of managerial controls, they assess the effects of this absence and make recommendations for adopting appropriate controls.

Policy and Procedural Guidance

Audit policy and procedural guidance to the staff is contained in DCAA's Contract Audit Manual (CAM). Revisions are issued as required by the agency's

headquarters. Portions of the manual are available to the general public. Within the broad guidelines set forth in CAM, the detailed audit steps to be accomplished in any particular case and the amount and kinds of evidence to be obtained are matters of an auditor's judgment. Factors influencing the auditor's judgment include the degree of assumed risk, as reflected by the extent and nature of Government contract participation in the contractor's total business, the materiality of possible errors or improper representations, adequacy of the contractor's policies and operating procedures and the adequacy of the contractor's system of internal control.

Operating Data

The agency is currently staffed with approximately 2,800 professional auditors, the majority of whom are college graduates with accounting degrees. Over 400 auditors are certified public accounts (CPAs), many belonging to the American Institute of Certified Public Accountants (AICPA). Each year an ever-increasing number of auditors are awarded a CPA certificate by their respective state of residence after passing the uniform CPA examination and fulfilling various experience requirements.

In addition to the AICPA, many auditors belong to and participate actively in other professional organizations, such as the Federal Government Accountants Association, American Accounting Association, and the National Contract Management Association.

Bernard B. Lynn, right, became director of the Defense Contract Audit Agency in November 1972. His Deputy Director is Frederick Neuman, below right, and W.E. Crouch is the executive officer.

DCAA is responsible for the audit of contract performance cost proposals submitted by approximately 6,000 business enterprises, universities, and other institutions, and annually reviews proposed and incurred costs in excess of $75 billion combined. This work requires the issuance of some 50,000 reports each year.

Although most of the DCAA audits are performed within the continental United States, some are performed in Europe, and in the Pacific and Southeast Asia areas.

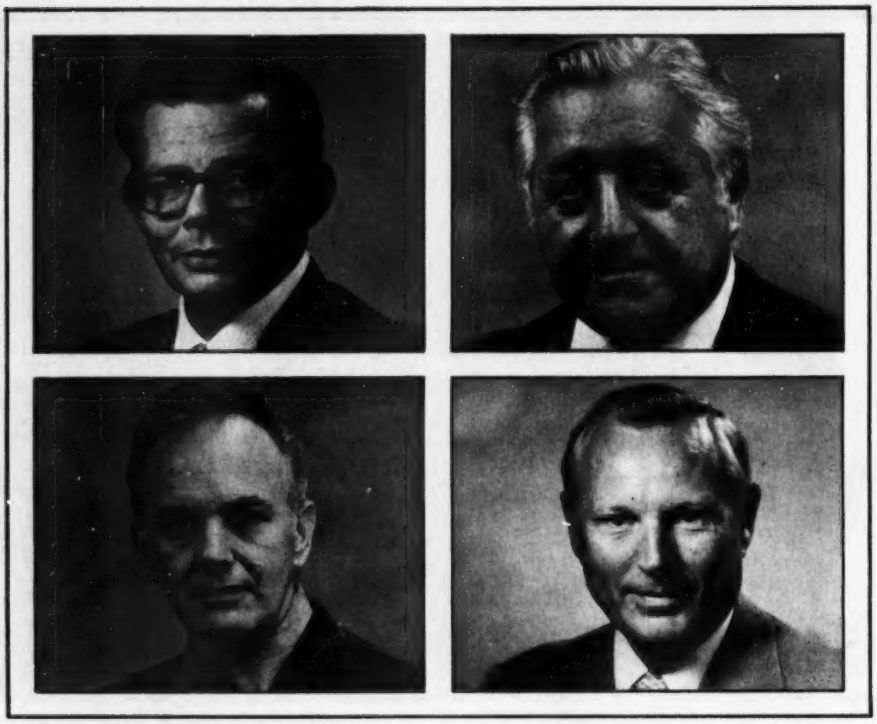
As a necessary adjunct to the review of price proposals, the DCAA auditor provides additional advisory service by attending negotiation conferences on request of the contracting officer. It is at these conferences that substantial savings to the Government are often achieved before a contract is signed. In Fiscal Year 1973, the agency reported savings in excess of $500 million from price proposal reviews alone.

Organization

DCAA is headquarterd at Cameron Station, Alexandria, Virginia, a few miles from the Pentagon. The headquarters organization and key agency personnel are identified and defined by function as follows:

- **Office of the Director**—Responsible for worldwide direction and control of the agency. Directs performance of the contract audit mission for the Department of Defense and other Government agencies as appropriate.

- **Deputy for Audit Management**—Formulates contract audit plans, policies, and procedures; maintains liaison with procurement, contract administration and other Government, industry, and professional organizations for interface in contract audit matters; and provides technical direction and guidance for performance of contract audit service for the Department of Defense and other



Key members of the Defense Contract Audit Agency staff include Michael J. Francone, top left, Deputy for Audit Management; Gilbert G. Olin, Assistant for Review & Analysis, top right; John J. Quill, Counsel, bottom left, and Harry W. Kettles, Deputy for Resources Management.

Government agencies, as appropriate.

Deputy for Resources Management—Formulates, directs, and executes plans, programs, policies, and procedures related to the management of DCAA resources including financial management, personnel management and administration, statistical reporting, management analysis, and general administration activities.

Counsel—Provides legal and legislative advice to the Director and the agency staff; is responsible for advice on all legal matters relating to defense contract audit in the Department of Defense including legal sufficiency of directives, instructions, regulations, determinations, and correspondence related thereto.

Assistant for Review and Analysis—Plans and directs agency-wide internal review and analysis activities for the Director on all aspects of audit operations of field and regional audit offices. Plans and conducts reviews to independently evaluate the operational and administrative effectiveness of all DCAA offices. Within the Office of the Deputy for Audit Management are contained three divisions described as follows:

Audits Division—Provides technical direction and guidance for direction and guidance for performance of contract audits and monitors program accomplishments. Provides indoctrination in designated audit areas, such as defective pricing, forward pricing proposal activities. Should Cost studies, estimating system surveys and university audits.

Identifies audit areas requiring in-depth reviews and performs such reviews. Monitors or directs pilot audits involving tests of new or improved audit methods.

Special Projects and Professional Development Division—Conducts studies of scientific, business, and accounting developments and adopts new or improved techniques for use in performance of contract audits. Monitors application of statistical methods and other advanced or improved audit techniques.

Determines areas in which DCAA special audits should assist DoD procurement and contract administration. Conducts special audits such as concurrent, multi-location examinations of selected cost items in Government contracts.

Serves as focal point for all DCAA actions relating to implementation of Cost Accounting Standards Board's (CASB) rules and regulations.

Directs the operation of the Defense Contract Audit Institute.

Responsible for the agency's Professional Development Program.

Policy and Procedures Division—Prepares and maintains DCAA publications establishing

policies and procedures governing performance of contract audits, including the DCAA Contract Audit Manual.

Prepares directives and technical decisions resolving questions relating to ASPR cost principles or accounting and costing principles. Maintains the DCAA Technical Data Bank and the Cost Application Program.

Provides DCAA representation on external committees or groups concerned with procurement or contract administration.

Regional Offices—There are seven major or subordinate offices designated as Regional Offices, which supervise over 300 field audit offices located throughout the United States and overseas. These 300 offices are classified into four types, described as follows:

- Resident Office—The audit office having responsibility for and physically located in a major contractor's plant. Authorized to sign and release audit reports.
- Branch Office—The audit office having responsibility for the DCAA mission for all contractor locations in a designated area except those assigned to resident and related suboffices. Authorized to sign and release audit reports.
- Suboffice—The audit office operated as an extension of a branch or resident office to provide on-site audit effort. Does not have signatory authority for audit reports.
- Liaison Office—The office assigned responsibility for coordinating audit matters with procurement or contract administration offices.

Types of Audits

Examples of typical preaward, postaward and other advisory audit services with a brief description of each are provided as follows:

Preaward

- Evaluate Contractor Price Proposals—prior to award of many Government contracts, contractors are required to submit a proposal on Form DD 633 which, with supporting documentation, details their cost estimates on the proposed contract. Upon request of the contracting officer, the DCAA will evaluate and report on the contractor's cost projection in light of all records or data relevant to an objective evaluation.

The auditor's report will include an opinion on the accuracy, allowability, and allocability of all significant cost estimates based on an evaluation including, but not limited to, (i) recent reviews of the contractor's accounting system, (ii) comparisons of cost estimates with incurred costs and vendors' quotations, (iii) analysis of current

Charles Collins, left, DCAA auditor, and Charles Gullotta, assistant superintendent, Experimental & Cost Account Manager, check the UTTAS ground test vehicle in tie-down test stand at the Sikorsky Aircraft Division, UAC.

cost trends in the contractor's labor, overhead, or other rates and, (iv) a review to assure the cost estimates are made in accordance with the contractor's accounting procedures.

• Review Contractor Accounting System—accounting systems are reviewed to determine the adequacy of cost identification and accumulation procedures and related suitability for the proposed type of contract.

• Evaluate Disclosure Statements and determine compliance with ASPR and Cost Accounting Standards—when applicable, contractors' disclosure statements are reviewed for the purpose of advising the contracting officer as to whether (i) the statement adequately describes the actual or proposed cost accounting practices, and (ii) the disclosed practices are in compliance with ASPR Section XV and applicable Cost Accounting Standards.

• Evaluate Contractor Estimating Procedures—to inform interested Government activities on the adequacy of the contractor's cost estimating system and any action necessary to correct deficiencies noted during the survey.

• Evaluate Contractor Financial Capability—on request of the contracting officer, audit is made to determine whether the prospective contractor is currently in sound financial condition and shows the ability to successfully finance the proposed contract.

Postaward

• Audit Contractor Incurred Costs—the auditor will examine the contractor's cost representations, in whatever form they may be presented (public voucher, cost statement, termination claim, etc.), and express an opinion as to whether such incurred costs are reasonable, allocable to the contract, determined under generally accepted accounting principles applicable in the circumstances, and not prohibited by the contract, by Government statute or regulation, or by previous agreement with or decision of the Government contracting officer. In connection with the requirement to express an opinion on the reasonableness of costs, the auditor will perform the previously discussed operations audits, in which the contractor's economy, efficiency and effectiveness are evaluated.

• Review Contractor Compliance with Cost Accounting Standards Act, Public Law 91–379—after the submittal and subsequent review of the required Disclosure Statement as explained above, the auditor will continually monitor and evaluate the contractor's accounting system to ascertain that cost records were in fact maintained as set out in the Disclosure Statement and that Cost Accounting Standards were complied with. He also will appraise the significance of new promulgations by the Cost Accounting Standards Board.

• Perform Defective Pricing Reviews Under Public Law 87–653—the auditor will perform a review to determine whether the contract or subcontract price, including fee or profit, was increased by a significant amount because the contractor or

Defense Contract Audit Agency personnel attend the Graphic, Computational and Improvement Curve Analysis Technique Course at the Defense Contract Audit Institute.

subcontractor furnished inaccurate, incomplete, or noncurrent cost or pricing data at the time the contract price was negotiated.

Other

• For selected sole source acquisitions or in other special instances, it may be necessary to convene a formal "Should Cost" team of specialists to evaluate the contractor's cost projections, supporting standards, and other in-plant management, operational, and performance practices, on which cost projections are based. This team normally includes all functional elements concerned with the procurement process (e.g., contract pricing, DCAA audit, contract administration, engineering, production management) to evaluate detailed cost performance data to develop the Government's negotiation objective. The objective is to identify what the scope of work should cost if the contractor were reasonably efficient and economical in its methods of operation. This type of analysis is directed toward evaluating historical cost data and eliminating the dollar effect of inefficiency.

• The Armed Services Procurement Regulation requires a contractor procurement system review (CPSR) to be made at major contractor locations expected to have sales to the Government during a 12-month period in excess of $5 million on other than firm fixed-price contracts or fixed-price contracts with escalation. These reviews form the basis for the administrative contracting officer (ACO) to grant, continue, withhold, or withdraw approval of a contractor's procurement system. The review is performed by a team usually consisting of purchase methods analysts, DCAA auditors, technical personnel, and other representatives of the ACO.

During the last decade, the Military Departments have developed a wide variety of management systems for programming, budgeting, accounting and inventorying major material resources. DoD is presently making an effort to achieve simplicity and uniformity among the various management systems and subsystems. DoD Resource Management Systems are classified into five basic types:

- Programming and budgeting systems,
- Accounting systems,
- Other management systems for operating activities,
- Inventory management systems, and
- Acquisition information and management systems.

• The first four types are primarily related to DoD in-house management function. The fifth type is concerned with the acquisition of weapons and support services from industrial contractors. It, in turn, consists of two basic subsystems, one specifically concerned with "selected" capital assets acquisitions and one concerned with "other" capital acquisitions. The first category has been named "Selected Acquisitions Information and Management System" (SAIMS). DCAA audit effort under DoD Resource Management Systems is primarily related to contractor financial records and reports required under SAIMS. There are six components of SAIMS, identified as follows:

- An Economic Information System (EIS);
- Cost Information Reports (CIR);
- Procurement Information Reporting (PIR);
- Contract Funds Status Reports (CFSR);
- A Performance Measurement System (Cost/Schedule Control Systems Criteria (C/SCSC)), and;
- Cost Performance Reports (CPR).

Except for EIS, DCAA audit effort is normally requested under each of the elements.

Professional Development

The agency maintains a substantial training program based on the realization that education is a continuing process needed by the auditors to keep abreast of developments in the auditing and accounting profession, to perfect their skills, to fully utilize their experience, and to develop their managerial ability. In recognition of this commitment to staff development, the agency has established a separate headquarters branch to coordinate and develop staff training needs and to encourage staff participation

in existing training programs. Training available to all DCAA auditors may be categorized as follows:

- Special technical training at the Defense Contract Audit Institute (described below).
- Advanced Accounting and job-related technical subjects after hours at approved schools—credit and non-credit and extension courses.
- Executive Development and Management courses offered by leading universities and Federal agencies.
- Workshops and seminars conducted by professional accounting organizations.

Defense Contract Audit Institute

The Defense Contract Audit Institute is a permanent training facility operated by the agency at Memphis, Tennessee. A staff of experienced auditors conducts various one and two week courses throughout the year. This teaching staff is augmented by auditors from the field and with outside guest lecturers to discuss current problems and experiences.

The courses are graduate level noncredit courses in which computer applications are emphasized. Training the contract auditor receives at this facility is in consonance with the guidelines recommended by the AICPA for continuing professional education.

Types of subject matter covered are:

- Use of graphic and computational analysis techniques in evaluating contractor pricing proposals and incurred costs.
- Statistical sampling applications in contract auditing.
- Improvement curve analysis techniques for evaluating contractor pricing proposals and cost trends.
- Audits of contractor records maintained in an automatic data processing environment.
- Audit procedures for special types of Government contracts.
- Supervision for audit managers.
- Use of time-shared computer.
- Communications and report writing.
- Cost concepts.
- Policies, regulations and procedures of the Defense Contract Audit Agency and the Department of Defense.

All newly hired auditors attend the institute for an indoctrination course. Subsequent attendance is in accordance with a scheduled training program which is based on the individual auditor's needs, progress, and potential.

COMMANDERS DIGEST

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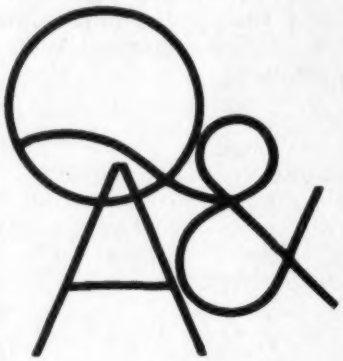

Bernard B. Lynn, Director of the Defense Contract Audit Agency (DCAA), during a recent interview with Commanders Digest explained the philosophy of the DCAA.

COMMANDER'S DIGEST: Basically, what is a DCAA Audit?

Answer: It is that work which leads to an independent, advisory opinion regarding the acceptability of contractor cost presentations and, when appropriate, regarding the efficiency and effectiveness of contractor operations. It provides assistance to DoD in purchasing at the lowest reasonable price or cost in the best interest of both the Government and the business entity supplying the goods or services.

CD: Please elaborate on how audit service assists in ensuring prudent DoD contracting.

A: The audit reports provide contracting officials with evaluations of a contractor's policies, procedures, controls, and actual performance. These reports are used in the contract procurement and administration processes and are part of the body of information on which official

decisions are based. Reports and opinions are based on a review of a contractor's operation as a totality, in which the auditor identifies and evaluates all activities which either contribute to, or have an impact on, proposed or incurred costs of Government contracts. This total approach led us to coin the phrase TACT—Total Audit Concept Technique—to help emphasize to our people the importance of looking at a contractor as an entity rather than a series of disjointed activities.

CD: For what purpose was TACT designed?

A: TACT was designed to achieve the following objectives:

(a) Assist procurement and contract administration authorities in achieving sound contract pricing.

(b) Work with these authorities in the evaluation and surveillance of contractors' systems to assure their conformance with DoD Cost Scheduling and Control System Criteria as well as others designed to facilitate tracking progress and performance under major weapon systems.

(c) In coordination with members of the DoD procurement team, and frequently with representatives of contractors as well, review the efficiency and economy of contractor operations where a substantial portion of its business is devoted to flexibly priced defense procurements.

(d) Evaluate the propriety and acceptability of costs charged or allocated to flexibly priced Government contracts.

CD: Where is it used?

A: It applies to those contractors who carry on a substantial volume of auditable business with DoD or with other Government agencies for which DCAA does contract audit work, i.e., where volume of audit work to be done is such that DCAA auditors are in continuous, or almost continuous attendance. It is not ordinarily used for contractors who are visited only periodically.

CD: Is prevention a large part of TACT?

A: Yes. Although audit procedures are employed to detect existing or past inefficient or wasteful practices, it is believed that a much greater usefulness attaches to the *prevention* of such conditions. Accordingly, audit emphasis in TACT is placed on *preventative* measures designed to eliminate or minimize deficiencies and inefficiencies which can result from inadequacies in those policies, procedures, controls and practices which are important to the cost control or other financial management aspects of the contractor's operations.

CD: Does TACT involve other Government personnel?

A: Yes. In the course of our reviews, questions with cost impact frequently arise on technical matters which are the responsibility of other Government personnel; in such cases, the technical matter questioned is referred to the responsible office. You see, the DCAA auditor functions as a member of the DoD Procurement Team which includes just about all of the disciplines necessary to provide contracting officers with the advice and assistance they need to negotiate with their industrial counterparts—Government scientists, industrial engineers, quality control and production specialists, and others. In order that there may be an effective and cooperative joint endeavor by the members of the Procurement Team resulting in optimum protection of the Government's interests each team member must have knowledge of all the skills available to the team.

CD: How is TACT implemented?

A: It is implemented by identifying all functional areas of a contractor's operations which significantly impact on the actual or proposed costs on Government work, and by examining these areas at intervals appropriate to their dollar significance and sensitivity.

The process is:

(i) to examine the contractor's announced policies and prescribed procedures, as they are set forth in whatever internal guidance it makes available to its personnel.

(ii) to evaluate the propriety of the policies and the adequacy of the procedures.

(iii) to test actual performance through records and observations, in order to determine whether announced policies and prescribed procedures are in fact carried out.

(iv) to make physical observations of contractor activities, for the purpose of identifying idle equipment, excessive numbers of personnel and wasteful practices of any kind which we can detect.

(v) to ascertain that the costs and expenses generated by the operations of the many functional areas are allocable, proper and necessary.

(vi) where wasteful practices or conditions are found, to bring them to the attention of the contractor and cognizant Government procurement and contract administration officials in order to arrange for cooperative action by the contractor.

CD: What functional areas?

A: The following are examples (the list is not all-inclusive):

General and Cost Accounting Systems
Budget Preparation and Execution
Contract Financial Management
Production Scheduling and Controls (in the context of financial management)
Interplant Billings
Purchasing and Subcontracting (in coordination with the administrative contracting office)

Material Storage and Issue Control of Scrap, Spoilage, and Excess and Obsolete Materials
Labor Cost Distribution Work Sampling
Payroll Preparation and Payment
Overhead Allocation Procedures
Estimating System
Depreciation Policies and Practices
Physical Inventories and Adjustments

CD: What good does TACT do?

A: It causes a DCAA resident auditor and staff to make a thorough and penetrating analysis of the many aspects of a modern industrial firm which influence the cost of its products and services. It aids in the prevention of wasteful practices and unnecessary costs by identifying the potential for such conditions to the contracting officer and contractor.

CD: What other Audit Management concepts are involved?

A: The TACT concept includes the following additional elements which should be present to assure that optimum use is made of audit time and audit findings and recommendations:

a. Totality. The audit manager must visualize the total job, and no task should be planned or performed without proper recognition of its benefit *to and from* every other task; they should understand the functional interrelationships of all of the contractor's organizational elements in order to recognize the complete significance of individual strengths or weaknesses in contractor operations or costing practices.

b. Communication and Reporting. Effective coordination and communication must be maintained among the audit staff members, with the contractor and with the contracting officer(s). There must be a constant and complete awareness of the auditor's role on the procurement "team," and a conscious effort to provide timely and complete information of common interest, whether such information is provided in audit reports, negotiation conferences or otherwise. Reports and other written communications should be complete, concise and understandable; citations of deficiencies should be followed by statements of underlying causes, the effect on operations and costs and a recommendation for corrective action.

CD: Are there other advantages of TACT?

A: a. It is a "commonsense" approach to auditing. The auditor views the contractor's operations as a profit-motivated business in which accounting is just one of the necessary functions of management.

b. It is positive in nature; the approach is not only concerned with the adequacy of and compliance with proper policies and procedures but is directed toward the development of recommendations to improve operations and controls and thereby promote maximum efficiency and consequent reduction in costs on Government contracts.

c. It deals with current matters rather than just with records of past events, and includes an evaluation of how effectively a functional area is being managed and the effects of this management on current and future costs and operations.

d. It is far more challenging; the auditors deal more with the financial management aspects of actual contractor operations since they interpret and evaluate information pertinent to the cost of Government work. This takes auditors into areas which require initiative and imagination and makes optimum use of their analytical skills.

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